

Instructions for Form FTB 3506

Child and Dependent Care Expenses Credit

What's New

Beginning with taxable year 2004, the following changes were made:

- California allows this credit only for care provided in California.
- If you were a nonresident, you must have earned wages from working in California or earned self-employment income from California business activities.
- The requirement to maintain a home in California has been eliminated.
- Federal adjusted gross income must be \$100,000 or less.
- If you are a military servicemember domiciled outside of California and earned military compensation, your military compensation is not considered as sourced in California and should not be used in computing this credit. For additional information, get FTB Pub. 1032, Tax Information for Military Personnel.

General Information

You must attach the completed form FTB 3506 to your return if you claim the child and dependent care expenses credit.

A Purpose

If you paid someone in California to care for your child or other qualifying person so you (and your spouse, if married) could work or look for work in 2004, you may be able to claim the credit for child and dependent care expenses. However, you must have earned income to do so. If you qualify to claim the credit, use form FTB 3506 to figure the amount of your credit.

If you received dependent care benefits for 2004 but do not qualify to claim the credit, you are not required to complete form FTB 3506. For additional definitions, requirements, and instructions, get federal Form 2441.

B Differences in California and Federal Law

The differences between California and federal law are as follows:

- California allows this credit only for care provided in California.
- If you were a nonresident, you must have earned wages from working in California or earned self-employment income from California business activities.
- Federal adjusted gross income must be \$100,000 or less to qualify for the California credit.
- Federal law increased the amount of earned income a disabled or full-time student spouse is treated as having earned. California did not conform.
- The California credit is a percentage of the federal credit as modified by California law.
- The California credit is refundable.

C Qualifications

You may take the credit if **all nine** of the following apply.

1. If you are married, you must file a joint return. For an exception, see Section E, Married Persons Filing Separate Returns, on page 2.
2. Care must be provided in California for one or more qualifying persons. See Section D, Qualifying Person Defined, on this page.
3. You paid for care so you (and your spouse, if married) could work or look for work. However, if you did not find a job and have no earned income, you do not qualify for the credit. If your spouse was a student or disabled, see the instructions for Part III, line 5, on page 3.
4. You (and your spouse, if married) must have earned income (wages or self-employment income) during the year. See the instructions for Part III, line 4, on page 3 for more information on earned income.
5. You (and your spouse, if married) paid over half the cost of keeping up your home for the qualifying person(s). The cost includes rent, mortgage interest, real estate taxes, utilities, home repairs, and food eaten in the home.
6. You and the qualifying person(s) live in the same home.
7. The person who provided care was not your spouse or a person for whom you can claim a dependent exemption. Generally, the person who provided the care cannot be a parent of the individual for whom care was provided. If your child provided the care, the child must have been age 19 or older by the end of 2004.

8. You report the required information about the care provider(s) in Part II, line 1, and the information about the qualifying person(s) in Part III, line 2.
9. Your federal adjusted gross income is \$100,000 or less.

D Qualifying Person Defined

Rules for Most People
A qualifying person is: <ol style="list-style-type: none">1. A child under age 13. You must qualify to claim the dependent exemption credit for this child. Children turning 13 during the year qualify only for the part of the year they were 12 years old.2. Your spouse who was physically or mentally incapable of self-care.3. Your dependent who was physically or mentally incapable of self-care. You must qualify for the dependent exemption credit for this person (or you could have claimed the dependent exemption credit except the person had gross income of \$3,100 or more).

Custodial Parent

You are the custodial parent if you had physical custody of your child longer than the other parent during the calendar year. On days where custody is shared, the parent having custody of the child for more than 12 hours is considered to have custody for that day. If you and the other parent have physical custody for the same number of days, then neither you nor the other parent is the custodial parent.

Divorced, Separated, or Never Married Parents

For divorced, separated, or never married parents, there are special rules for determining if your child is your qualifying person. A child can only be the qualifying person of one parent when the parents are filing separate returns. Even if both parents pay for child care for the same child, both parents cannot qualify for the credit. Some custody agreements designate which parent is entitled to the credit. However, the designated parent must still meet all the qualifications in Section C, Qualifications, to claim the credit. Use the table below to see if your child is your qualifying person.

RULES FOR DIVORCED, SEPARATED, OR NEVER MARRIED PARENTS		
IF	AND	THEN
ALL four of the following apply: <ol style="list-style-type: none">1. Your child was under 13 and/or physically or mentally incapable of self-care when the care was provided. Children turning 13 during the year qualify only for the part of the year they were 12 years old.2. One of the following applies:<ol style="list-style-type: none">a. You are divorced or legally separated from the other parentb. You and the other parent lived apart at all times during the last 6 months of the year. (This includes parents never married to each other.)3. One or both parents had custody of the child for more than half the year.4. One or both parents provided more than half the child's support for the year.	You were the custodial parent and you can claim the dependent exemption credit for the child.	The child is your qualifying person.
	You were the custodial parent <u>and</u> you met all the dependent exemption requirements <u>except</u> that you did not provide more than half of the child's support during the year.	The child is your qualifying person.
	You are <u>not</u> the custodial parent.	The child is <u>not</u> your qualifying person. You are <u>not</u> entitled to the dependent exemption credit.
	You and the other parent have custody for the same number of days during the year.	The child is <u>not</u> the qualifying person of <u>either</u> parent. You are <u>not</u> entitled to the credit.
One or more of the four statements above do not apply.		Use the "Rules for Most People" on this page.

E Married Persons Filing Separate Returns

Generally, if you are married, you must file a joint return to claim the credit. However, you can take the credit on your separate return if:

1. You meet all three requirements below:
 - You lived apart from your spouse at all times during the last six months of 2004.
 - The qualifying person(s) lived in your home more than half of 2004.
 - You provided over half the cost of keeping up your home.
2. You meet all the other qualifications in Section C, Qualifications.

F Nonresidents and Part-Year Residents

1. You must complete and attach Schedule CA (540NR), California Adjustments - Nonresidents or Part-Year Residents, to your tax return, Long Form 540NR. If Part I of Schedule CA (540NR) is not fully completed, your credit may be disallowed.
2. Nonresidents must have earned income from California sources to qualify for the credit. Beginning with tax year 2004, a nonresident servicemember's military wages are not considered earned income from a California source for the purpose of qualifying for the credit.
3. Part-year residents must have earned income while a California resident or earned income from California sources while a nonresident to qualify for the credit.

Specific Line Instructions

Part I

Unearned Income and Other Funds

List the source and amount of **any** money you received in 2004 that is not included in your earned income (line 4 and line 5) but that was used to support your household. Include child support, property settlements, public assistance benefits, court awards, inheritances, insurance proceeds, pensions and annuities, social security payments, workers' compensation, unemployment compensation, interest, or dividends.

Part II

Line 1

Complete line 1a through line 1g for each person or organization that provided the care in California. Only care provided in California qualifies for the credit. You can use federal Form W-10, Dependent Care Provider's Identification and Certification, or any other source listed in the instructions for Form W-10 to get the information from your care provider. If your provider does not give you the information, complete as much of the information as possible and explain that your provider did not give you the information you requested.

If you do not give correct and complete information, your credit may be disallowed unless you can show you used due diligence in trying to get the required information.

Lines 1a through Line 1c

Enter your California care provider's complete name (or business name), address, and telephone number (including the area code). We may contact your care provider to verify the information you provide.

If you were covered by your employer's dependent care plan and your employer furnished the care (either at your workplace or by hiring a care provider), enter your employer's name on line 1a. Next, enter "See W-2" on line 1b. Complete line 1c through line 1f. Then leave line 1g blank. But, if your employer paid a third party (not hired by your employer) on your behalf to provide care, you must provide information on the third party on line 1a through line 1g.

Line 1d

For each care provider, check one box indicating whether the care provider is a person or organization.

Line 1e

If your care provider is	Then enter on line 1e
An individual	The provider's social security number
Not an individual	The provider's federal employer identification number (FEIN)
A tax-exempt organization	"Tax-exempt"

Line 1f

Enter the complete address where the care was provided. Only care provided in California qualifies for the credit.

Line 1g

Enter the total amount you **actually paid** in 2004 to your care provider for care provided in California. Also include amounts your employer paid to a third party on your behalf. It does not matter when the expenses were incurred. Do not reduce this amount by any reimbursement you received.

Part III

Line 2

Complete column (a) through column (e) for each qualifying person for whom care was provided in California. If you have more than three qualifying persons, attach a sheet of paper to your return with the required information and write "see attached." Be sure to put your name and social security number on the sheet.

Column (a)

Enter each qualifying person's name.

Column (b)

Enter each qualifying person's social security number. Be sure that the name and social security number match the qualifying person's social security card. Otherwise, we may reduce or disallow your credit. If the person was born in, and later died in, 2004, and does not have a social security number, enter "Deceased" in column (b) and attach a copy of the person's birth and death certificates.

Enter the social security numbers of the first two qualifying persons on Form 540, line 42 and line 43; Form 540A, line 28 and line 29; or Long Form 540NR, line 51 and line 52.

Column (c)

Enter the qualifying person's date of birth in the space provided or if the qualifying person is disabled (physically or mentally incapable of self-care), check the "Yes" box.

Column (d)

If you shared custody of the qualifying person(s), enter the percentage of time you had physical custody during 2004.

Column (e)

Enter the qualified expenses you incurred and paid in 2004 for the qualifying person. Include only the qualified expenses for care provided in California. If the child turned 13 years old during the year, include only the qualified expenses for the part of the year the child was under 13. Do not include in column (e) qualified expenses:

- You incurred in 2004 but did not pay until 2005. You may be able to use these expenses to increase your 2005 credit.
- You incurred in 2003 but did not pay until 2004. Instead, see instructions for line 11.
- You prepaid in 2004 for care to be provided in 2005. These expenses may only be used to figure your 2005 credit.

Note: A qualified expense does not include the amount you paid for education (school tuition) or the amount you received through a subsidy program.

Line 4

Earned income Includes:	Earned income does not include:
<ul style="list-style-type: none"> Wages, salary, tips, and other taxable and nontaxable employee compensation including combat pay Net earnings from self-employment Strike benefits Disability payments you report as wages 	<ul style="list-style-type: none"> Military pay including combat pay of a servicemember domiciled outside of California even if stationed in California Pensions or annuities Social security payments Workers' compensation Interest Dividends Capital gains Unemployment compensation Public assistance Homeowner and Renter Assistance
Nonresidents and Part-Year Residents Only: Earned income from California sources includes: <ul style="list-style-type: none"> Wages, salary, tips, and other taxable and nontaxable employee compensation for working in California (except military compensation earned by nonresidents) Net earnings from self-employment from California business activities Strike benefits related to California employment Disability payments you report as California wages 	

Line 5

Spouse Who Was a Student or Disabled

Your spouse was a **student** if he or she was enrolled as a full-time student at a school during any 5 months of 2004. A school does not include a night school or correspondence school.

Your spouse was **disabled** if he or she was not capable of self-care. Figure your spouse's earned income on a monthly basis.

For each month your spouse was a full-time student or disabled, enter on line 5 the larger of

- Your spouse's actual earned income for that month, or
- \$200 (\$400, if you have 2 or more qualifying persons).

If, in the same month, both you and your spouse were either full-time students or disabled, only one of you can be treated as having earned income of \$200 (or \$400) in that month. For any month that your spouse was not a full-time student or disabled, use your spouse's actual earned income for that month.

Line 7

Use the chart on this page to determine the decimal amount to enter on line 7. Your federal adjusted gross income (AGI) is on Form 540A, line 12b; Form 540, line 13; or Long Form 540NR, line 13.

If your Federal AGI is:		The decimal amount
Over	But not over	on Line 7 is:
\$0	\$15,000	.35
15,000	17,000	.34
17,000	19,000	.33
19,000	21,000	.32
21,000	23,000	.31
23,000	25,000	.30
25,000	27,000	.29
27,000	29,000	.28
29,000	31,000	.27
31,000	33,000	.26
33,000	35,000	.25
35,000	37,000	.24
37,000	39,000	.23
39,000	41,000	.22
41,000	43,000	.21
43,000	No limit	.20

Line 9

Use the chart below to determine the decimal amount to enter on line 9.

If your federal AGI from Form 540A, line 12b; Form 540, line 13; or Long Form 540NR, line 13 is:	The decimal amount to enter on Line 9 is:
\$40,000 or less	.50
Over \$40,000 but not over \$70,000	.43
Over \$70,000 but not over \$100,000	.34
Over \$100,000	Stop. You do not qualify for this credit.

Line 11

If you had qualified expenses for care that was provided in 2003, but that you paid for in 2004, you may be able to increase your credit for 2004. Complete the worksheet on Side 2 of form FTB 3506. You will need a copy of your 2003 California return to complete the worksheet.

Part IV

Line 13

Dependent care benefits are:

- Amounts an employer paid directly to you (or your spouse, if married), or to your care provider for the care of your qualifying person(s), while you worked.
- A day-care facility provided by your employer.
- Generally deducted from your salary.
- Shown in box 10 of your 2004 Form(s) W-2.

Line 14

If you had a flexible spending account, any amount included on line 13 that you did not receive because you did not incur the expense is considered forfeited. Do not include amounts you expect to receive at a future date.

Line 16

Enter the total of all qualified expenses incurred in 2004. It does not matter when the expenses were paid.

Note: A qualified expense does not include the amount you paid for education (school tuition) or the amount you received through a subsidy program.

Example: You received \$2,000 cash under your employer's dependent care plan for 2004. The \$2,000 is shown in box 10 of your Form W-2. You incurred \$900 of qualified expenses in 2004 for the care of your 5-year-old dependent child. You would enter \$900 on line 16, but would report the entire \$2,000 on line 13.

For all other lines, follow specific line instructions on the form. For additional information, get federal Form 2441 or Publication 503.

Worksheet

Line 12 and line 14

You will need to get the 2003 form FTB 3506 instructions to complete the Credit for 2003 Expenses Paid in 2004 Worksheet. You can get forms from our Website at www.ftb.ca.gov or by calling (800) 338-0505.

Line 12

Enter the decimal amount from the chart in the line 7 instructions of the 2003 form FTB 3506 that corresponds to your 2003 federal adjusted gross income.

Line 14

Enter the decimal amount from the chart in the line 9 instructions of the 2003 form FTB 3506 that corresponds to your 2003 California adjusted gross income.